

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
I. D. #5408
RESOLUTION E-3976
April 13, 2006

R E S O L U T I O N

Resolution E-3976. Golden State Water Company (GSW) submits an Advice Letter containing its first annual filing requesting recovery of costs recorded in the bark beetle Catastrophic Event Memorandum Account (CEMA), applicable to its Bear Valley Electric Service District (BVES), for the period April 3, 2003 through June 30, 2005. GSW/BVES' request is approved with modifications.

By Advice Letter 210-E filed on December 22, 2005.

SUMMARY

Golden State Water Company's (GSW) request to recover the costs of tree removal and incremental support costs recorded in its Catastrophic Event Memorandum Account (CEMA) associated with its Bear Valley Electric Service (BVES) bark beetle infestation for the period April 3, 2003 through June 30, 2005 is approved with the following modifications:

- **GSW's request for recovery of \$340,117 (plus monthly compounded interest that will continue to accrue through the effective date of this resolution) is approved.**
- **For future recovery of bark beetle-related costs booked to the CEMA, GSW shall file an application, or file in conjunction with future General Rate Cases (GRCs).**

In approving with modifications GSW's Advice Letter 210-E filed on December 22, 2005, the California Public Utilities Commission (CPUC) (1) finds that the \$340, 117 (plus interest that will continue to accrue through the effective date of this resolution) in Operation and Maintenance (O&M) expenses recorded in GSW's bark beetle CEMA for the period April 3, 2003 through June 30, 2005 is reasonable; (2) authorizes GSW to recover CEMA expenses in electric distribution rates over a twelve-month period on or after the effective date of this resolution; and (3) authorizes GSW to file by application or in conjunction with

future GRCs when seeking recovery of future bark beetle CEMA-related costs (covering recorded costs for previous periods), showing the reasonableness of the requested recovery.

GSW Advice Letter 210-E was not protested.

BACKGROUND

On March 7, 2003, Governor Davis issued a State of Emergency Proclamation for the Counties of Riverside, San Bernardino, and San Diego because of widespread bark beetle infestation.

Over 12 million trees, weakened by years of drought in mountainous regions of San Bernardino, Riverside, and San Diego Counties are dead or dying because of a widespread bark beetle infestation. This situation poses a significant hazard to distribution and transmission lines, and electric facilities that serve these areas. Among other directives, the Governor's Emergency Proclamation requested that the CPUC, *"direct utility companies with transmission lines in Riverside, San Bernardino, and San Diego counties to ensure that all dead, dying and diseased trees and vegetation are completely cleared from their utility right-of-ways to mitigate the potential of fire danger."*

In response to the Emergency Proclamation, the CPUC issued Resolution E-3824 on April 3, 2003.

Resolution E-3824 ordered Southern California Edison Company (SCE), BVES, and San Diego Gas & Electric Company (SDG&E) to work with the California Department of Forestry and Fire Protection (CDF) and other appropriate agencies to *"Take all reasonable and necessary actions to implement the provisions of the Governor's State of Emergency Proclamation to mitigate the increased fire hazard by removing dead, dying or diseased trees that may fall or contact distribution and transmission lines within their rights of way..."*

In addition, the CPUC directed the utilities to invoke their CEMA for funding accounting and comply with their CEMA tariff requirements. The resolution authorized the utilities to make annual advice letter filings requesting recovery of the costs of tree removal and incremental support costs recorded during a specified period in the CEMA to allow rate recovery of the amounts determined

to have been reasonably incurred. GSW activated its bark beetle CEMA effective April 3, 2003.

Along with federal, state, and local agencies, GSW is part of a large-scale effort to remove more than 12 million dead or dying trees in the bark beetle-infested areas.

GSW has identified and removed approximately 800 dead or dying trees that could impact their distribution lines and facilities through the end of 2005. GSW estimates that an additional 1,600 dead or dying trees still threaten distribution lines and facilities within their service territory. This estimate is expected to grow as the bark beetle infestation continues to spread.

GSW initiated this project by conducting meetings with CDF, the San Bernardino County Fire Department, the Big Bear Lake Fire Department, the U.S. Forestry Service, California Transit, Officials from the Cities of Big Bear Lake and Fawnskin, and officials from Big Bear Lake along with other local utility and school board leaders.

Working as a group with the various jurisdictional authorities, maps of the service territory were developed identifying the infested areas and the responsible entity. A priority for tree removal was established, giving highest priority to the areas that impacted community safety. Trees adjoining BVES' distribution lines and facilities were assigned the highest priority due to the danger caused by a tree that had fallen across a distribution line, and the extreme danger that could be caused by future occurrences. High priority was also given to trees adjoining BVES distribution lines as a majority of these lines run parallel to designated evacuation routes. As of December 31, 2005, approximately 800 dead, dying, or diseased trees have been removed by GSW.

In AL 210-E and supporting documents, GSW discussed the approach it took in implementing the project to eliminate bark beetle infestation.

Through meetings with the jurisdictional authorities listed above, responsibility for removing trees within various jurisdictions was established.

After establishing jurisdictional responsibility, GSW entered into an agreement with the Appraisal, Consulting, Research, and Training (ACRT) firm to survey and identify the infested trees within its "right of way" along approximately

200+ miles of overhead lines and 22 circuits. BVES then solicited bids from qualified tree removal services and entered into an agreement with the Asplundh Tree Expert Company to remove the infested trees. The survey and removal process was repeated in 2004 and 2005.

GSW has removed approximately 800 trees through the end of 2005, and additional trees will need to be removed.

In 2003, 282 trees were identified and removed. In 2004 an additional 304 trees were identified and removed, and in 2005, 212 trees were identified and removed. According to invoices paid through June 30, 2005, GSW paid for removal of 51 trees through the first half of the year. From 2003 through 2005, a total of 798 trees have been removed. The original survey estimated 3,000 total trees within the BVES "right of way". GSW states that the mortality rate of these trees is estimated to be approximately 80% over a five-year progression, and that it anticipates that 2,400 of the 3,000 trees will succumb to infestation and require removal. As such, GSW estimates that another 1,600 trees will need to be removed under this program.

GSW estimates that this program may need to continue for another three to four years. GSW states that the amount of winter snow and rainfall helps control the spread of beetle infestation. While the spring and summer of 2005 contributed rain that seemed to have slowed the mortality and infestation of trees within the service territory, the 2005-2006 winter season has resulted in very little rain or snow, so as trees emerge from their naturally dormant period, summer conditions may see the infestation accelerate.

Resolution E-3880 required SCE to file by application for future recovery of bark beetle-related costs booked to CEMA.

On June 4, 2004, SCE filed AL 1801-E, requesting recovery of costs recorded in its bark beetle CEMA. As in this current GSW advice letter, SCE requested that future bark beetle costs be recovered by the filing of an advice letter. On September 23, 2004, the Commission adopted Resolution E-3880, which ordered SCE to file by application to recover future bark beetle CEMA costs.

Resolution E-3904 required SDG&E to file by application for future recovery of bark beetle-related costs booked to CEMA.

On September 21, 2004, SDG&E filed AL 1623-E, requesting recovery of costs recorded in its bark beetle CEMA. As in this current GSW advice letter, SDG&E requested that future bark beetle costs be recovered by the filing of an advice letter. On January 13, 2005, the Commission adopted Resolution E-3904, which ordered SDG&E to file by application to recover future bark beetle CEMA costs.

NOTICE

Notice of AL 210-E was made by publication in the Commission's Daily Calendar. GSW states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A. Additionally, notices were posted in the Los Angeles Times and Big Bear Grizzly newspapers on January 18, 2006, and the San Bernardino County Sun newspaper on January 24, 2006.

PROTESTS

No protests were received regarding GSW Advice Letter 210-E.

DISCUSSION

Energy Division has reviewed GSW AL 210-E. We follow with discussion of the relevant facts that lead to our approval of this advice letter with modifications:

GSW-recorded expenses in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.

CPUC Resolution E-3824 authorized GSW to record its costs of tree removal and incremental support costs related to the bark beetle infestation in its CEMA. These incremental costs can include both capital and operating expenses, although through June 30, 2005, GSW has incurred no capital costs. Only those costs incurred on or after April 3, 2003, determined by GSW to be incremental and appropriately documented are recorded by GSW in their bark beetle CEMA. GSW states that it is managing the bark beetle project with no staff labor costs being charged to the project. Because these internal costs are already reflected in BVES' currently authorized rates, they were not recorded to the CEMA.

GSW states that the incremental costs caused by bark beetle infestation are not part of its normal business practice (e.g. G.O. 95 tree trimming and vegetation

management), and are therefore not funded through existing rates. We accept GSW's analysis that the bark beetle costs it recorded in the CEMA from April 3, 2003 through June 30, 2005 are incremental costs. GSW is managing the project with no staff labor costs being charged. Energy Division has confirmed that all costs recorded to the CEMA reflect expenses charged by outside contractors specifically assigned to the bark beetle project. We allow GSW to recover these costs in rates.

Incremental bark beetle CEMA costs are recorded for the period April 3, 2003 through June 30, 2005.

In its advice letter, GSW seeks to recover \$340,117 in costs. This includes interest expense through June 30, 2005 calculated on a monthly basis using the three-month commercial paper rate, as published by the Federal Reserve. Interest will continue to accrue through the effective date of this resolution. All of the bark beetle costs incurred through June 30, 2005 have been expense related; GSW has not incurred any capital-related costs.

Of the total bark beetle costs booked to the CEMA, \$9,421 was incurred during 2003 for the removal of 282 dead, dying, or diseased trees (many of the removed trees had not been invoiced by December 31, 2003; thus their removal costs were reflected in 2004), \$282,400 was incurred during 2004 for the removal of 304 trees, and \$48,296 was incurred for the removal of 51 trees for invoices paid through June 30, 2005, out of a total 212 trees removed during 2005.

BVES rates will increase slightly as a result of this resolution.

Recovery of the bark beetle CEMA costs will result in a slight increase to BVES' customers' rates (e.g. both bundled service and direct access customers).

The June 30, 2005 bark beetle CEMA balance of \$340,117 will continue to accrue interest expense through the effective date of this resolution. Thus, the actual final amount transferred from the CEMA will be slightly higher. These costs will increase the total system average rates by approximately 1.20%.

CARE-eligible residential customers' total rate component will properly reflect and observe guidelines set forth by the CARE program, to insure that these customers continue to receive rates that are within legislated guidelines.

The additional cost per kilowatt hour (kWh) attributed to bark beetle cost recovery within rate schedules for all non-CARE eligible customers will be set at \$.00249 per kWh. The additional cost per kWh for CARE-eligible customers will be set at \$.00199 per kWh, which is no more than 80% of the additional cost component paid by non-CARE customers.

Future recovery of bark beetle CEMA costs shall be made in future GRCs, or by separate application, not by advice letter.

In Resolution E-3824 (authorizing the utilities to invoke their CEMA accounts for this tree clearing emergency), Finding number 4 states: *"The utilities are authorized to make annual advice letter filings requesting recovery of the costs recorded during a specified period in their CEMAs to allow rate recovery of the amounts determined to have been reasonably incurred."* As a practical matter, it is difficult to determine the reasonableness of an expenditure in an advice letter. The advice letter process is expedited. There is more opportunity for a thorough review in a formal application. For this advice letter, the requested amounts are all expense-related (e.g. no capital costs), the transactions appear logical and appropriate based on review of the invoices, and the dollar amounts are relatively small. Energy Division was able to analyze this advice letter and determine that the requested amounts were reasonably incurred.

However, we are also mindful of the Commission's concerns as expressed in SCE's and SDG&E's bark beetle cost recovery resolutions (E-3880 and E-3904, respectively) that bark beetle costs should be audited. Determining the reasonableness of these expenditures will best be done through a formal proceeding, such as in GSW's next GRC, or a separate application. This should include those expenses that were incurred in the previous period, as well as any capital costs that were booked to plant during the previous period. The application shall include all workpapers necessary for determining the reasonableness of the expenditures.

COMMENTS

Pursuant to statutory requirement, a draft resolution was issued for comments at least 30 days prior to consideration by the CPUC.

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment

prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived or reduced. Accordingly, this draft resolution was mailed for comments, and placed on the Commission's agenda no earlier than 30 days from the Commission meeting.

FINDINGS

1. Resolution E-3824 effective April 3, 2003, directed GSW to invoke its CEMA for bark beetle expense accounting.
2. Resolution E-3824 authorized GSW to make annual advice letter filings requesting recovery of the costs determined to be reasonable for tree removal, and incremental support costs recorded during a specified period in its CEMA to allow rate recovery.
3. By Advice Letter 210-E filed on December 22, 2005, GSW requests recovery of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through June 30, 2005.
4. The \$340,117 in bark beetle costs recorded in GSW's CEMA for the period April 3, 2003 through June 30, 2005 is reasonable.
5. Expenses recorded by GSW in the bark beetle CEMA are incremental costs that have not been recovered through existing rates.
6. GSW requests transfer of the June 30, 2005 balance in the bark beetle CEMA of \$340,117 (plus interest accrued through the effective date of this resolution) to electric distribution expenses for recovery in rates over a twelve-month period. The request to transfer the balance is approved.
7. In future years, GSW should file an application or submit for recovery within its General Rate Case for its bark beetle CEMA-related tree removal expenditures. Such applications should include those expense costs that were incurred in the previous year, as well as any capital costs that were booked to plant in the previous year.
8. GSW's Advice Letter 210-E was not protested.

THEREFORE IT IS ORDERED THAT:

1. GSW's request to recover the costs of tree removal and incremental support costs recorded in its CEMA associated with the bark beetle infestation for the period April 3, 2003 through June 30, 2005, as requested in AL 210-E is approved.
2. GSW is authorized to recover in rates bark beetle CEMA balances as of June 30, 2005, (plus accrued interest), over a twelve-month period on or after the effective date of this resolution.
3. The request of GSW to implement future bark beetle CEMA-related rate changes annually by advice letter, as requested in AL 210-E, is denied.
4. Future bark beetle CEMA-related rate changes shall be filed by application, or within General Rate Cases. The filing shall include all workpapers necessary to determine the reasonableness of the expenditures.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on April 13, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

ID#5408

March 2, 2006

Commission Meeting Date: April 13, 2006

TO: PARTIES INTERESTED IN Golden State Water Company's Advice Letter 210-E

Enclosed is draft Resolution E-3976 of the Energy Division. It addresses Golden State Water Company's request for the CPUC to allow full recovery of costs recorded in its Catastrophic Event Memorandum Account (CEMA) associated with its Bear Valley Electric Service bark beetle infestation, for the period April 3, 2003 through June 30, 2005. The draft Resolution will be on the agenda at the April 13, 2006 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200; jjr@cpuc.ca.gov

A copy of the comments should be submitted by electronic mail to Felix Robles in the Energy Division at: fvr@cpuc.ca.gov.

Any comments on the draft Resolution must be received by the Energy Division by March 21, 2006. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to this letter, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to five pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be submitted (i.e. received by the Energy Division) on March 27, 2006, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon
Program Manager
Energy Division

Enclosures:

Certificate of Service

Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-3976 on all parties in these filings or their attorneys as shown on the attached list.

Dated March 2, 2006 at San Francisco, California.

Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

SERVICE LIST

Ronald Moore, Senior Regulatory Analyst
Regulatory Affairs
c/o Golden State Water Company
630 East Foothill Blvd.
San Dimas, CA 91773
rkmoore@scwater.com